NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS

A BETTER WAY TO COPE: Policy-oriented Alternatives For the FY87 Defense Budget

by Les Aspin

House Armed Services Committee
Washington, D.C. 20515

May 20, 1986

H202-11

INTRODUCTION

It seems certain that the deep concern over unprecedented federal budget deficits that led to the Gramm-Rudman-Hollings legislation will result in extraordinarily deep cuts in the President's FY87 defense budget request, even if the Supreme Court upholds the lower court's finding regarding the legislation's constitutionality.

ALTERNATIVE BUDGET LEVELS

Table 1 shows a range of alternatives to the President's FY87 request, ranging from no real growth in Budget Authority over FY86 down to the CBO's estimate of the effects of sequestration under the Gramm-Rudman legislation.

TABLE 1

ALTERNATIVE REDUCTIONS
From The
PRESIDENT'S FY87 NATIONAL SECURITY (050) BUDGET REQUEST

			CUTS	
	BA	OUTLAYS	BA	OUTLAYS
PRESIDENT'S FY87 REQUEST	320	297	-	-
ZERO REAL BA GROWTH	296	283-289	24	8-14
ZERO ABSOLUTE BA GROWTH	286	278-285	34	12-19
ZERO REAL OUTLAY GROWTH	265-287	278	33-55	19
ZERO ABSOLUTE OUTLAY GROWTH	237-271	269	49-83	28
GRAMM-RUDMAN	271	266	49	31

The first line in Table 1 shows the President's FY87 request. The Budget Authority is as submitted; the Outlays are as recalculated by the CBO.

The second line is based on the FY86 post-sequestration Budget Authority ($286B), plus a 3.4% allowance for inflation between FY86 and FY87. The resulting $296B in Budget Authority is a $24B reduction from the President's request. The Outlays that would be associated with that level of Budget Authority depend on how the reduction from the President's request is allocated among the various accounts, some of which convert Budget Authority into Outlays more rapidly than others. The lower Outlay figure in this line ($283B) assumes that each dollar of reduction in Budget Authority reduces Outlays in the first year by $.56, which is the average relationship for all new Budget Authority. The higher figure ($289B) assumes that each dollar of reduction in Budget Authority reduces Outlays in the first year by only $.33, which is the relationship for cuts typically made during the authorization process. The Outlay reductions from the President's budget therefore range between $8B and $14B.

The third line is based on an absolute freeze in Budget Authority at the FY86 post-sequestration level ($286B). This $34B reduction in the President's budget translates into an Outlay reduction of between $12B and $19B, depending on how the cuts are distributed among the various accounts.

The fourth line is based on FY86 post-sequestration Outlays ($269B), plus a 3.4% allowance for inflation between FY86 and FY87, or $278B -- a $19B reduction from the President's budget. The corresponding Budget Authority would be between $265B and $287B, depending on the allocation of the reductions.

The fifth line is based on an absolute freeze in Outlays at the FY86 post-sequestration level ($269B). The corresponding Budget Authority level would be between $237B (if a $3 cut in Budget Authority is required to save a dollar in Outlays) and $271B (if only a $1.79 cut is required to save a dollar in Outlays). This alternative would cut between $49B and $83B in Budget Authority and $28B in Outlays from the President's request.

The sixth and final line is the CBO's estimate of the reductions ($49B in Budget Authority and $31B in Outlays) that would stem from sequestration under the Gramm-Rudman legislation. Unlike the four previous lines, there are no ranges of variation in Budget Authority or Outlays in this case because the cuts are precisely specified by the legislation.

In summary, the reductions in the President's request covered by these five alternatives range between $24B and $83B in Budget Authority and between $8B and $31B in Outlays. The issue is how to achieve such reductions.

TRADITIONAL BUDGETARY REDUCTIONS

The Congress has traditionally modified the President's defense budget request through a large number of generally unrelated and quite detailed changes. These have normally been based on considerations of efficiency, or reestimates of costs, or program stretch-outs, or reductions or occasionally terminations of questionable weapon system projects. Most of the cuts are at least initially developed independently by separate subcommittees to meet specific budgetary targets. Their magnitude in the past two years is shown in Table 2 below.

TABLE 2

HOUSE ARMED SERVICES COMMITTEE CUTS IN PRIOR YEARS

	BA		OUTLAYS	
SUBCOMMITTEE	FY85	FY86	FY85	FY86
MILITARY PERSONNEL & COMPENSATION	$2.2B	$2.0B	$2.2B	$1.9B
RESEARCH & DEVELOPMENT	3.5	5.0	1.6	2.3
SEAPOWER & STRAT. CRIT. MATERIALS	1.5	.9	.1	.1
PROCUREMENT AND MIL. NUC. SYSTEMS	8.8	7.1	1.8	1.4
READINESS	2.7	1.9	2.0	1.4
MIL. INSTALLATIONS & FACILITIES	.8	.7	.2	.2
TOTAL	19.5	17.6	7.9	7.2

Those reductions -- typically $18B to $20B in Budget Authority and $7B or $8B in Outlays -- approach only the most modest of the cuts shown in Figure 1 (a real freeze in Budget Authority), but fall far short of matching the deeper cuts. It is conceivable that by pressing this traditional approach to the limit, taking advantage of all conceivable efficiencies, costing reestimates,

stretch-outs, and terminations, the cuts might be stretched to perhaps $25B in Budget Authority and $10B in Outlays. But even if that could be done, something more than the traditional kind of reductions would be needed for any Budget Authority limit less than $295B, or any Outlay limit less than $287B. In terms of Table 1, that includes all the other (and more likely[1]) alternatives -- an absolute freeze in Budget Authority, a real or an absolute freeze in Outlays, or reductions equivalent to those that sequestration would impose.

One possibility for deeper-than-traditional budgetary reductions might be to deny any new starts in R&D, Procurement, and Military Construction, as well as any increases in the pace of existing production lines. A rough estimate of the effect of such a decision on the President's FY86 defense budget request is shown below:

TABLE 3

DEEPER-THAN-TRADITIONAL REDUCTIONS

	REDUCTIONS	
	BA	OUTLAYS
NO NEW STARTS:		
R&D	$ .3B	$ .16B
PROCUREMENT	1.6	.22
MILITARY CONSTRUCTION	.1	.03
NO PRODUCTION INCREASES:		
PROCUREMENT	5.3	.70
TOTAL:	7.3B	1.11B

Such an approach, though unusually sweeping, would not go far enough to meet any but the most modest reduction listed in Table 1. In conjunction with the maximum to be expected through traditional budgetary reductions, the total might amount to about $32B in Budget Authority and about $11B in Outlays.

In addition, there is a real question as to the wisdom of pressing the traditional approach much beyond issues of orderly management and efficiency. It is clear that cuts beyond that point would weaken us militarily to one degree or another. But precisely how the disparate and generally unrelated cuts that stem from the traditional approach would affect our ability to carry out our fundamental national security policies is anything but clear. In fact, simply cutting weapon systems would imply that we are more concerned with military hardware than we are with the national security policies that the hardware is supposed to support -- that we are more concerned with the means than the ends.

---

[1] The Senate has agreed to a figure of $301B for Budget Authority, or close to the most modest of the Figure 1 alternatives. However, that figure is contingent on a tax increase of $13B, which the President has adamantly opposed. The figure approved by the House is $285B, which is in the much more restrictive range of an absolute Budget Authority freeze, or even a real Outlay freeze.

Thus, because the traditional approach 1) cannot alone generate reductions on the scale that will almost certainly be required this year, and 2) is limited to consideration of means rather than ends, a better approach is needed.

POLICY-ORIENTED ALTERNATIVES

The better approach to meeting this year's austere budgetary targets -- or, for that matter, meeting any year's budgetary targets -- is through consideration of policy-oriented alternatives. The traditional approach focuses on disparate changes in weapon systems and force structure and manpower levels, without reference to the changes that might thereby be imposed on our national security policy. The better approach instead focuses first on changes in national security policy and then deduces what the logical (rather than random or disparate) associated changes in hardware, force structure, and manpower would be.

The traditional approach focuses on the means and overlooks the ends. The policy-oriented approach instead focuses on the ends and derives from them the means that would be required to carry them out.

As a completely theoretical example solely for purposes of illustration, the traditional approach might cut both the maritime prepositioning program (possibly crippling our capabilities in Southwest Asia) and some heavy divisions (also degrading our capabilities in Europe). A policy-based approach, on the other hand, might consider that rather than risking defeat in both theaters, it might be preferable to alter our policy and concentrate instead on the defense of Europe. Under that new policy, we would abandon the rest of our capabilities for Southwest Asia (e.g., airlift, light divisions) in order to preserve the heavy divisions for Europe. Whether such a choice would be the right one in the real world is beside the point, this being merely an illustration. The point is that rather than being random cuts with unknown effects, the policy-based approach would consciously tie specific cuts and known effects together. It would integrate ends and means.

This report turns next to a series of such policy-oriented alternatives.[2]

Policy-Oriented Alternative #1: Protect Near-Term Readiness, Sacrifice Long-Term Preparation

---

[2] A definitive examination of all the ramifications of any of these alternatives is beyond the scope of a brief report. The particular actions assumed in drawing up each of the alternatives do not necessarily exhaust all the possible savings. The CBO has costed out the actions that seemed most reasonable and obvious. But there are almost certainly associated actions that would yield some further savings. On the other hand, there may also be hidden costs. Suffice it to say there can be no pretensions of precision. (The reader should also be aware that because certain actions are included in more than one alternative, adding the effects of two or more alternatives may involve double counting.)

The first policy-oriented option would result from a judgment that we face more serious military risks in the next few years than we are likely to face in the next decade. Given that judgment, if budget cuts are inevitable it would be better to take them in ways that wouldn't affect our capability until 5 or 10 years from now than to take them in ways that would hurt our capability next year. Accordingly, to protect our near-term capability, this alternative would sacrifice R&D and procurement accounts. Specifically, it would:

- Terminate the following nine weapon systems, all of which have been controversial to one degree or another:
  - C-17 airlift aircraft
  - F-15 fighter aircraft
  - AMRAAM air-to-air missile
  - IIR Maverick air-launched anti-tank missile
  - Patriot surface-to-air missile system
  - LANTIRN IR navigation and targeting system
  - KC-135RE tanker reengining program
  - E-6A strategic nuclear communications aircraft
  - Bradley Fighting Vehicle

- Cut the so-called "other procurement" category in half, sacrificing items such as vehicles and office equipment, but saving items that contribute to near-term readiness, such as repair parts and ammunition-related procurement;

- Cut all remaining procurement by two-thirds except for spares, support equipment and facilities, and ammunition, which it would protect, and;

- Cut all the R&D accounts by a third.

Thus, when we say "sacrifice" the R&D and procurement accounts to protect the funding for near-term readiness, we mean "sacrifice" in the most painful sense of the word. Such cuts would have an immense effect on Budget Authority, and thus eventually on Outlays. But because these accounts tend to spend out so slowly, the immediate reduction in Outlays is much smaller:

OPTION 1A:	
FY87 BUDGET AUTHORITY REDUCTION:	$54.1B
FY87 OUTLAY REDUCTION:	$10.4B

The reduction in Budget Authority is large enough to accommodate any of the Table 1 alternatives but, because these accounts spend out so slowly, the Outlay reduction would be equivalent to that of only the least demanding alternative (a real Budget Authority freeze, with a more even distribution of the cuts among the various accounts).

In a variant of this alternative, cutting the R&D accounts involving specific weapon systems (the 6.3 Advanced Development and 6.4 Engineering

Development accounts, where most of the R&D funding lies) by two-thirds instead of only one-third would increase the Outlay reduction to the equivalent of the second budget alternative (an absolute Budget Authority freeze, more evenly distributed):

OPTION 1B:	
FY87 BUDGET AUTHORITY REDUCTION:	$62.4B
FY87 OUTLAY REDUCTION:	$14.6B

Policy-Oriented Alternative #2:
Protect Long-Term Preparation, Sacrifice Near-Term Readiness:

This alternative, exactly the opposite of the last one, would stem from a judgment that the military risks we face for the next few years are likely to be less (rather than more) serious than the ones we are likely to face in the next decade. Accordingly, we would be willing to accept some temporary sacrifice in our military capability in the interest of protecting our capability for the more distant future.

This alternative would therefore:

- Cut in half all the aircraft flying hours and ship steaming hours planned for FY87, namely:
  - Cut Air Force tactical fighter crews from 20 hours flying per month to 10,
  - Cut Navy carrier-based aircrews from 24 hours flying per month to 12;
  - Cut forward-based ships from almost 17 days per month at sea to about 8-1/2; and
  - Cut home-based ships from almost 10 days per month at sea to less than 5, or less than one out of every six days.
- Stop all accessions of military and civilian personnel; and
- Reduce military manning across the board by 10%:
  - 220,000 active component spaces; and
  - 120,000 reserve component spaces; for
  - 340,000 total spaces.

The financial effects would be:

OPTION 2A:	
FY87 BUDGET AUTHORITY REDUCTION:	$11.3B
FY87 OUTLAY REDUCTION:	$11.0B

Because these are relatively fast-spending accounts, the reduction in

Outlays is nearly as great as the reduction in Budget Authority. Thus the Outlay reduction is equivalent to the first alternative in Table 1, while the Budget Authority reduction is less than half that required.

In a variant of this alternative, the cuts in flying and steaming hours and the halt in accessions would be as above, but the across-the-board manning reduction would be increased from 10% to 20%, with reductions as follows:

- 440,000 active component spaces; and
- 240,000 reserve component spaces; for
- 680,000 total spaces.

The financial effects would be:

OPTION 2B:	
FY87 BUDGET AUTHORITY REDUCTION:	$14.3B
FY87 OUTLAY REDUCTION:	$13.9B

The Outlay reduction in this variant rises to the equivalent of the second alternative in Table 1, though the Budget Authority reduction is still far below that of even the first alternative.

In a further variant of this alternative, the cuts in flying and steaming hours and the halt in accessions would again be as above, but the across-the-board manning reduction would be increased from 20% to 30%, with reductions as follows:

- 650,000 active component spaces; and
- 350,000 reserve component spaces; for
- 1,000,000 total spaces.

The financial effects would be:

OPTION 2C:	
FY87 BUDGET AUTHORITY REDUCTION:	$17.2B
FY87 OUTLAY REDUCTION:	$16.7B

While the reduction in Outlays is still within the range of the second alternative in Figure 1, the Budget Authority reduction is still far less than that of even the first alternative.

The effect on our combat capability of cuts even approaching a million military personnel spaces would obviously be immense, exceeded perhaps only by the effect on the perceptions of our allies -- not to mention the Soviet Union -- regarding our intention to continue as the leader of the Free World. Yet even the most severe variant of this alternative would still require real growth in Budget Authority in FY87, and would achieve only about half the Outlay reduction of a Gramm-Rudman sequestration.

These reductions are based on the (probably optimistic) assumption that the cuts in manning could be effected in six months. But even if that could be managed, the manpower savings in the first year (FY87) would be only half those

in subsequent years. The approximate aggregate annual effect in future years would be:

10% MANNING CUT	20% MANNING CUT	30% MANNING CUT
$15 B	$21 B	$27 B

Thus, in the long term, the 10% manning cut would meet the requirements of an absolute Budget Authority freeze, and the 30% manning cut would meet the requirements of an absolute Outlay freeze. But of course those options would fall far short of meeting those requirements in the first year, FY87.

Policy-Oriented Alternative #3:
Protect Conventional Forces, Sacrifice Strategic Nuclear Forces:

This alternative would follow a judgment that the problems we face in conventional forces are more pressing than those we face in strategic nuclear forces. Accordingly, in an effort to protect the funding for conventional forces, the alternative would sacrifice the modernization of our future strategic nuclear forces, as follows:

- Cancel the remainder of the MX ICBM program;
- Cancel the single-warhead, mobile Midgetman ICBM program;
- Cancel the Trident II (D-5) sea-launched ballistic missile (SLBM) program;
- Cancel the Ground-Launched Cruise Missile (SLCM) program;
- Cancel the Over-The-Horizon Backscatter (OTH-B) radar;
- Reduce FY87 funding for the Advanced Technology Bomber (ATB, the so-called "Stealth" bomber) by $3B[3];
- Omit the FY87 Trident SSBN as part of a reduction in the building rate from one per year to one every other year;
- Procure enough Trident I (C-4) (instead of D-5) SLBMs to equip future Trident boats;
- Reduce the Department of Energy's supporting nuclear weapon program by an arbitrary $2.5B in keeping with the large reduction in strategic delivery systems; and
- Reduce FY87 Strategic Defense Initiative (SDI) funding to $1B.

This alternative would not meet the requirements of even the first budget alternative shown in Table 1:

OPTION 3:
FY87 BUDGET AUTHORITY REDUCTION: $18.0B
FY87 OUTLAY REDUCTION: $ 7.2B

The next three policy-oriented alternatives follow a judgment that if the defense budget is to be significantly reduced, we will have no realistic choice

---

[3] The $3B figure is entirely arbitrary. Those cleared for the program can judge how much funding is actually available for reductions and, if necessary, adjust the aggregate figures for this alternative accordingly.

other than having to reduce or abandon some of our commitments to aid in the defense of areas of importance to the Free World.

Policy-Oriented Alternative #4:
Abandon Persian Gulf Commitments:

The commitment to be abandoned in this alternative is our guarantee of Free World access to petroleum supplies from the Persian Gulf area. This alternative would cancel most of the initiatives to improve our strategic mobility, a major requirement for prosecution of our current Persian Gulf policy. It would also eliminate some of the new light ground forces that were predicated largely on ease of strategic mobility. In sum, the actions would include:

- o Canceling the remainder of the C-5B airlift aircraft program;
- o Canceling the C-17 airlift aircraft program;
- o Canceling the remainder of the KC-10 tanker and airlift aircraft program; and
- o Canceling two new light Army divisions in FY87.

Although the Maritime Prepositioning Ship program was been predicated largely on Persian Gulf contingencies, it has not been included in the list of actions. Because the ships are leased from private owners, it might cost (rather than save) money to abandon them. On the other hand, it might be possible to save some additional funding by using the equipment now stored aboard the ships to offset new procurement.

Though the long-term effects of these substantial cuts would be considerable (the C-17 program alone amounts to roughly $35B), the immediate financial effects would be very much smaller:

OPTION 4:	
FY87 BUDGET AUTHORITY REDUCTION:	$ 3.9B
FY87 OUTLAY REDUCTION:	$ 1.2B

Policy-Oriented Alternative #5:
Abandon Our Northeast Asia Commitments:

In this alternative, we would abandon our commitment to aid in the defense of South Korea and Japan. The actions would be to deactivate -- not merely to return to the United States, but to disband -- our principal Army and Air Force units stationed in the area:

- o Deactivate the 2nd Infantry Division; and
- o Deactivate the equivalent of three Air Force tactical fighter wings.

The financial effects would be:

OPTION 5:
FY87 BUDGET AUTHORITY REDUCTION: $ 1.2B
FY87 OUTLAY REDUCTION: $ .8B

Because deactivating these forces is assumed to require six months, the savings in FY87 are smaller than the roughly $2.3B reduction that would apply in subsequent years. But even the $2.3B is far below what any of the Table 1 budget alternatives would call for.

Policy-Oriented Alternative #6:
Reduce Our Commitments to NATO:

In this final geographically based policy alternative, we would reduce our commitment to aid in the defense of Europe by deactivating some of the major units -- Army divisions and Air Force squadrons -- stationed there or earmarked for NATO. As in the Northeast Asia alternative above, the units stationed overseas would not merely be returned to the United States; they, along with the CONUS-based units earmarked for NATO, would be disbanded.

In the first variant of this alternative, roughly 10% of such units would be disbanded:

- One active Army heavy division;
- One reserve Army light division;
- Six active Air Force tactical fighter squadrons; and
- Three reserve Air Force tactical fighter squadrons.

The financial effects would be:

OPTION 6A:
FY87 BUDGET AUTHORITY REDUCTION: $ 1.1B
FY87 OUTLAY REDUCTION: $ .7B

In the second variant, roughly 20% of such units would be disbanded:

- Two active Army heavy divisions;
- One reserve Army heavy division;
- One reserve Army light division;
- 11 active Air Force tactical fighter squadrons; and
- Six reserve Air Force tactical fighter squadrons.

The financial effects would be:

OPTION 6B:
FY87 BUDGET AUTHORITY REDUCTION: $ 2.4B
FY87 OUTLAY REDUCTION: $ 1.6B

In the final variant of this alternative, roughly 30% of such units would be disbanded:

- Three active Army heavy divisions;
- One reserve Army heavy division;
- Two reserve Army light divisions;
- 16 active Air Force tactical fighter squadrons; and
- Nine reserve Air Force tactical fighter squadrons.

The financial effects would be:

OPTION 6C:	
FY87 BUDGET AUTHORITY REDUCTION:	$ 3.4B
FY87 OUTLAY REDUCTION:	$ 2.3B

The reductions in Budget Authority and, particularly, Outlays are disappointingly small in comparison with the very large reductions in forces. A principal reason is the assumption that it would take six months to actually disband the forces, thus saving only half the FY87 cost of operating those units. Beyond that, this estimate does not account for other savings that would result from reductions of equivalent magnitude in smaller supporting units, or savings that would accrue over the long term after adaptation to a smaller force structure.

On the other hand, one could argue that the estimates for FY87 are, if anything, too high in view of the practical difficulty of shutting down as many as six divisions and eight tactical fighter wings, storing or disposing of their immense inventory of supplies and equipment, discharging all their personnel, and closing their bases in as little as six months.

Policy-Oriented Alternative #7:
Emphasize Reserve Components:

This final policy-oriented alternative conforms to a judgment that, rather than cut back on total force structure, we would prefer to take a chance that war will not break out suddenly, and to assume that we would have advance warning (and act on it), so that we would not require such a high degree of readiness as we have now. This alternative therefore considers the transfer of some of the active forces to the reserve components.

The first variant would transfer roughly 10% of the active forces to the reserve components:

	TRANSFERRED	REMAINING ACTIVE
- Army Divisions	2	15
- Air Force Wings	3	22
- Navy Ships*	57	310

---

* Deployable battle forces.

The financial effects would be:

OPTION 7A:	
FY87 BUDGET AUTHORITY REDUCTION:	$ .9B
FY87 OUTLAY REDUCTION:	$ .6B

The second variant would transfer roughly 20% of the active forces to the reserve components:

	TRANSFERRED	REMAINING ACTIVE
o Army Divisions	4	13
o Marine Divisions	1	2
o Air Force Wings	6	19
o Navy Ships	113	454

The financial effects would be:

OPTION 7B:	
FY87 BUDGET AUTHORITY REDUCTION:	$ 2.0B
FY87 OUTLAY REDUCTION:	$ 1.4B

The final variant of this alternative would transfer roughly 30% of the active forces to the reserve components:

	TRANSFERRED	REMAINING ACTIVE
o Army Divisions	6	11
o Marine Divisions	1	2
o Air Force Wings	8	17
o Navy Ships	170	397

The financial effects would be:

OPTION 7C:	
FY87 BUDGET AUTHORITY REDUCTION:	$ 2.9B
FY87 OUTLAY REDUCTION:	$ 2.0B

None of the variants of this alternative even remotely approach the least demanding Budget Authority or Outlay reductions shown in Figure 1. Once again, a major reason for such a small saving in comparison with such a massive shift is the assumption that it would take six months to effect, thus realizing only a half a full year's saving in FY87.

Table 4 below summarizes the financial results of all the above alternatives and their variants.

TABLE 4

SUMMARY OF FINANCIAL EFFECTS

ALTERNATIVE	FY87 BA	FY87 OUTLAYS
1A - PROTECT NEAR-TERM CAPABILITY, 1/3 CUT IN 6.3, 6.4	-54.1	-10.4
1B - PROTECT NEAR-TERM CAPABILITY, 2/3 CUT IN 6.3, 6.4	-62.4	-14.6
2A - PROTECT LONG-TERM CAPABILITY, 10% MANNING CUT	-11.3	-11.0
2B - PROTECT LONG-TERM CAPABILITY, 20% MANNING CUT	-14.3	-13.9
2C - PROTECT LONG-TERM CAPABILITY, 30% MANNING CUT	-17.2	-16.7
3 - PROTECT CONVENTIONAL FORCES	-18.0	- 7.2
4 - ABANDON PERSIAN GULF COMMITMENTS	- 3.9	- 1.2
5 - ABANDON NORTHEAST ASIA	- 1.2	- .8
6A - CUT EUROPEAN FORCES BY 10%	- 1.1	- .7
6B - CUT EUROPEAN FORCES BY 20%	- 2.4	- 1.6
6C - CUT EUROPEAN FORCES BY 30%	- 3.4	- 2.3
7A - TRANSFER 10% OF ACTIVE FORCES TO THE RESERVES	- .9	- .6
7B - TRANSFER 20% OF ACTIVE FORCES TO THE RESERVES	- 2.0	- 1.4
7C - TRANSFER 30% OF ACTIVE FORCES TO THE RESERVES	- 2.9	- 2.0

There are three major points implicit in this table. First, it is a great deal easier to control Budget Authority than it is to control Outlays. The largest Budget Authority reduction is almost four times the size of the largest Outlay cut. To the degree that the Congressional target for the FY87 defense budget is stated in terms of Outlays rather than Budget Authority, the task of meeting that objective will be increasingly difficult.

Second, none of the alternatives comes close to meeting the requirements of an absolute Outlay freeze. It could be that even with the kind of $8B - $9B Outlay cut that the Committee has made in previous years, the most drastic of the policy-oriented alternatives would still be needed to meet an Outlay freeze. As noted earlier, the figures in Table 3 could be understated; we could not tell without a far more detailed analysis. But it seems safe to say that any of the Outlay-based targets -- any of the last three lines in Table 1 -- would require unprecedentedly drastic actions.

There are three fundamental reasons that such drastic cuts in our military capability have such a relatively small effect on Outlays.

- Though almost all of the money appropriated in a few defense accounts is spent in the first year, much less is spent in the remaining accounts. For example, though 98 cents of every dollar appropriated for Military Personnel is spent in the first year, only eight cents of the Military Construction dollar is. Thus, saving a dollar of Outlays in the first year requires a cut of only $1.02 in the Military Personnel account, but a cut of $12.50 in the Military Construction account. In the aggregate, it takes a cut of almost $1.80 in defense Budget Authority as a whole to save a dollar of Outlays in the first year.

- The more drastic the changes in military capability -- the more massive the cuts in weapon systems, personnel, and force structure -- the longer it takes to carry them out. Thus the changes that would eventually result in the largest reductions in Outlays tend to show the proportionately smallest savings in the first year.

- Because of the lag between defense appropriations and actual Outlays, many of the Outlays in a given year are the result of appropriations from previous years. As such, they generally represent government obligations, and thus are not subject to reduction.

And third -- the most important point -- the severity of the cuts that would have to be made to achieve either a real or an absolute Outlay freeze, or to avoid sequestration under the Gramm-Rudman legislation, or the more mindless and damaging cuts that sequestration would impose, make it clear that even if our current national security policy is viable now, it most certainly would not be viable then. Unless the above figures are very seriously in error, such cuts could very well force on us either a fundamental retrenchment in our national security objectives, or a policy built on sand.

The fact that none of the policy-oriented alternatives goes very far toward solving the Outlay problem does not mean that the more traditional style of trimming the budget is preferable. On the contrary, it is only through consideration of policy-oriented alternatives that the real consequences of such immediate and deep Outlay cuts can be fully appreciated. For that reason, this year's deliberations should not be modeled after those of previous years, merely on a larger scale. The Committee should instead expand its deliberations to consider the more fundamental implications for national security policy.

This is not an issue of whether the Bradley fighting vehicle has been tested adequately, or whether we can afford a new class of SSN, or how to resolve the revolving door problem, or whether we should move to biennial budgeting. Those are all important issues and should be addressed in due course. But they are all secondary to the great issue of what to do to avoid such cuts or, if they can't be avoided, what our new national security policy should be.

# # # #